

# Too soon to call time on China's economic boom

REUTERS, Beijing

Back in 2007, Premier Wen Jiabao called the Chinese economy increasingly unstable, unbalanced, uncoordinated and ultimately unsustainable. He has used the same language this year and there's every chance the description will still apply in another four years.

The timing of when China's growth model will "ultimately" run out of steam is probably the most critical question facing the world economy.

Mature economies such as the United States and Germany are lucky to grow faster than around 3 percent. China, by contrast, has expanded 10.1 percent a year on average since 1978.

Its gross domestic product, measured in dollars at market exchange rates, has doubled in four years, boosting oil and commodity prices and reshaping swathes of the global economic landscape in the process.

So the trajectory of China's growth -- a gradual deceleration or an abrupt full stop -- matters far beyond its borders.

Li Daokui, an adviser to the central bank, reckons the economy can maintain annual growth of 9 percent for the next five years.

But some economists see the day of reckoning approaching fast. Nouriel Roubini of New York University has warned of a sharp slowdown, most likely after 2013, once it becomes impossible for China to keep increasing fixed investment, the main driver of growth.

The odds are that China can



A man pushes recyclable goods on his tricycle in Beijing yesterday.

keep the show on the road for some time yet and will not be forced to overhaul its growth model until much later in the decade.

"Everything that is happening in China today is unsustainable at the current pace. That's not good or bad. It's just an observation," said Andy Rothman, China macro strategist in Shanghai for CLSA, a brokerage.

The breakneck growth of China's iron ore consumption five years ago could not last, Rothman said. Nor could the 2010 pace of car sales. The same will be true at some point of negative real interest rates, house

price growth and inequality.

"But none of these things being unsustainable over the long term mean they have to come crashing down," he added. "If you were a real bear, you would argue that some day just everything will collapse. But it's hard for me to see that scenario playing out."

## BANKS UNDER SCRUTINY

China's economy is nothing if not resilient. In recent years it has defied predictions of a hard landing due to everything from bad loans to investment-led overheating, food inflation that exceeded 20 percent in early

2008, the threat of protectionism and the global financial crisis.

China's response to that crisis is grist to the mill of both bulls and bears. The former point to the success of massive and rapid pump-priming, made possible by the Communist Party's ownership of the banks.

Sceptics say the state-directed investment binge is simply storing up problems by saddling the banks with huge, incipient bad debts as a result of lax lending to local governments.

Jason Bedford with accounting and consultancy firm KPMG in Beijing acknowledged the risks to banks in the event of a big

slump in the property and land they hold as collateral for loans.

But he played down specific worries about a souring of home mortgages, since home buyers in China must make a down payment of at least 30 percent.

"I certainly don't envisage the potential for anything approaching the destructive nature of the collapse in the US real estate market, simply because, if there is a bubble here, it is not a debt-financed real estate bubble," Bedford said.

## MOMENTUM

Another objection to the argument that China can keep expanding at 7-8 percent a year for some time to come is that Japan, South Korea and Taiwan all tended to slow after about 30 years of turbo-charged growth.

But China's development surge started from a much lower level. Its GDP per capita of \$4,200 in 2010 was still only 9 percent of that in the United States. China's standard of living today is comparable to that of Japan in 1954, Taiwan in 1972 and South Korea in 1976, according to Ting Lu with Bank of America Merrill Lynch.

Despite the image of a country sweeping all before it, China has a lot of ground to make up. It must boost the skills of its work force; ramp up innovation and research; raise the capital base of the poorer interior; move another 250 million or so farmers into cities; and meet the needs for transport, clean water and myriad other public goods and services.

## French minister Lagarde applies for top IMF job

AFP, Paris

France's Finance Minister Christine Lagarde said on Wednesday she is running as a candidate to head the International Monetary Fund, after she received wide European backing for the post.

"I have decided to present my candidacy" for the job, she told reporters, adding that she had made the decision "after mature reflection."

If appointed, she would be the first woman to head the global emergency lender which is currently deeply involved in the eurozone debt crisis.

An EU source said on Friday that Lagarde, 55, was practically certain to become Europe's candidate, although she has been dogged by a French judicial probe into allegations of abuse of power.

"I have a perfectly clear conscience" about that affair, she told reporters on Wednesday after her announcement.

Lagarde gained fresh endorsements on Wednesday, with the head of the European Commission Jose Manuel Barroso saying he fully supported her decision.

EU Economic Affairs Commissioner Olli Rehn said that "Christine Lagarde is without doubt a figure who carries weight on the international stage," in remarks to French business daily Les Echos.

"Her reputation has grown further in recent months through her skill in managing the debt crisis in Europe and her good management of the French presidency of the G20" grouping of big economies, he added.

A French prosecutor called this month for a probe targeting Lagarde in connection with her handling of a high-profile scandal involving tycoon Bernard Tapie, amid allegations that she exceeded her authority in the case.

Lagarde has cut an impressive figure as the first female finance minister of a G7 power, earning a reputation for grace under fire during the global economic crisis.

# Facebook revolution comes to French presidency



Facebook Chief Operating Officer Sheryl Sandberg (L) listens to World Economic Forum founder and CEO Klaus Schwab during a plenary session at the e-G8 Forum on Tuesday in Paris.

AFP, Paris

The internet revolution reaches the top level of world leadership Wednesday when Facebook pioneer Mark Zuckerberg meets with President Nicolas Sarkozy on the closing day of the first "e-G8" summit.

The 27-year-old American founder of the social networking site -- on which Sarkozy himself has a page -- was due at the Elysee palace at 1000 GMT, between the president's meetings with the cabinet and the Japanese prime minister.

The encounter comes on the sidelines of the "e-G8", which on its second day was fast becoming a face-off between the powers that be, big business and web rebels.

Sarkozy kicked off the summit of top online and media barons on Tuesday, hailing their "internet revolution" but warning them that some degree of government regulation was inevitable to avoid "democratic chaos."

Google's executive chairman Eric Schmidt hit back by warning governments to "be careful about regulating the Internet" for fear of choking its potential, while web freedom group Access Now petitioned

against Sarkozy's stance.

"After the first day of discussions at the so-called 'e-G8 forum', President Sarkozy's disastrous design for the internet has become glaringly apparent," said a statement Wednesday from campaign group Access Now.

"The world's most developed economies (the G8) are poised to impose strict copyright enforcement and heavy-handed government regulation of the internet," it added, citing leaks of drafts of the e-G8 final declaration due Wednesday.

The e-G8 aims to draw up a declaration for the Group of Eight Leaders who meet in Deauville, north-western France, on Thursday and Friday, with discussions covering sensitive issues such as online copyright and censorship.

Major players on the industry and political side approved Sarkozy's stance on regulation, particularly on protecting intellectual property from online privacy.

Sarkozy "did well in putting these questions in the agenda," the European Union's Digital Agenda Commissioner, Neelie Kroes, told the forum on Wednesday. "Sometimes you need rules in the game, in particular when it's about global issues."

Rupert Murdoch, the billionaire head of the News Corporation empire and arguably the world's most powerful media mogul, also weighed in, calling for the G8 to protect intellectual property.

"We hope that the G8 will strongly affirm that the property rights of artists and creators are more than just a matter of protecting cultures," he told the gathering Tuesday.

"In this new century, they are essential requirements for a dynamic economy and the digital future."

With blogs and Tweets oiling the wheels of revolution in some countries and scans and downloads sparking trade disputes in others, the stakes are high for leaders seeking to profit from the web but also to rein in online crime.

Top executives from online giants including Microsoft, Facebook, eBay and Amazon attended the gathering to tout the economic potential of the Internet, which Sarkozy has put on the agenda of the G8 summit he will host.

Zuckerberg was due to speak at the close of the forum on Wednesday. He and other big hitters are then due to personally deliver the e-G8's declaration to G8 leaders in Deauville.

## Unilever raises China prices despite fine

AFP, Beijing

Consumer products giant Unilever has raised the prices of some household items in south China, state media said Wednesday, only weeks after the company was fined for announcing planned price hikes.

Retailers in Guangzhou city, Guangdong province received a notice Tuesday announcing price rises for shampoo and body wash from two brands owned by the Anglo-Dutch firm, the Guangzhou Daily reported.

Supermarkets selling the products would raise their prices about 10 percent, while department stores would hike prices by more than five percent, the report, citing unnamed managers at the outlets, said.

On May 6, Chinese authorities slapped a two million yuan (\$308,000) fine on Unilever after concluding the company "illegally disseminated news of price hikes" and sparked the panic-buying of shampoo and detergents in March.

The company declined to comment when contacted by AFP on Wednesday.

The fine by the National Development and Reform Commission -- China's powerful economic planning agency -- was seen as a warning to other companies and highlights the growing anxiety in Beijing about soaring costs.

The country's consumer inflation, which has a history of triggering social unrest, remained stubbornly high at 5.3 percent in April after hitting 5.4 percent in March, the highest level since July 2008.

# Google to launch mobile payments system

REUTERS, New York

Google Inc will take the wraps off a mobile payment system on Thursday that lets consumers pay at checkout with phones instead of cards, a source said, hoping to beat Visa and others to the punch.

The Internet search and advertising leader will work with MasterCard Inc, the world's second-largest credit and debit card processing network, to launch the system, the source familiar with the matter told Reuters on Tuesday.

Google has teamed with MasterCard and Citigroup Inc to develop the system, the Wall Street Journal reported in March.

It has now signed up retail partners Macy's Inc, American Eagle Outfitters Inc and Subway, though it is unclear if the project will be launched nationwide or just in New York initially, the Journal cited sources as saying Tuesday.

Google invited reporters to attend a "partner event" on Thursday in New

York to demonstrate what it called its "latest innovations." It plans to unveil a mobile payments system that will run on the Android operating system and be available on phones from Sprint Nextel Corp, Bloomberg reported on Tuesday.

A source familiar with the matter confirmed Google would launch the program. Citigroup did not respond to requests for comment. Google, Sprint and MasterCard declined comment.

About a decade after they were dreamed up by engineers and marketers, mobile wallets are still far from commonplace in the United States, stymied by industry infighting, consumer tastes and regulatory hurdles.

That has not stopped banks, phone makers and technology companies -- fearful of being left behind -- from trumpeting the concept.

Shoppers abroad, especially in Asia, can already wave cellphones at the check-out counter to pay for everything from groceries to gasoline.

Teresa Ko (L), chairperson of Listing Committee, and Ivan Glasenberg, Glencore CEO, hold a souvenir at the company's listing ceremony at the Stock Exchange in Hong Kong yesterday. Shares in Swiss commodities giant Glencore opened 2.8 percent lower in their Hong Kong trading debut, following a tepid launch in London for the year's biggest IPO.



AFP